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October 1, 2007

VIA FEDERAL EXPRESS

Thomasenia P. Duncan
General Counsel
Federal Election Commission
Office of General Counsel
999 "E" Street, NW
Washington, DC 20463

MUR # 5943

RECEIVED
FEDERAL ELECTION
COMMISSION
OFFICE OF GENERAL
COUNSEL

2007 OCT -2 11:05b

Re: *Complaint Regarding Possible Violations of the Bipartisan Campaign Reform Act; Request for Referral to Department of Justice*

Dear Ms. Duncan:

We file this complaint on behalf of Ursula Angell, a California voter, under 2 U.S.C. section 437g(a)(1), 2 U.S.C. section 437g(a)(5)(C) and 11 C.F.R. section 111.4(a).¹ The respondents are Rudy Giuliani, a candidate for the Republican nomination for President, and Paul Singer, a policy adviser and Regional Finance Chair to the Giuliani campaign.

BACKGROUND

Based on a California campaign contribution report filed on September 23, 2007, as well as recent news reports, it appears that GOP presidential candidate Rudy Giuliani, through his agent, Paul Singer, has established, financed, maintained or controlled a newly-created Missouri limited liability corporation for the purpose of soliciting and receiving contributions in excess of the federal limits, and possibly from impermissible sources, in order to support a ballot

¹ Ms. Angell's sworn and notarized declaration attesting, on information and belief, to the truth of the facts asserted herein is attached to this letter. Ms. Angell may be contacted through our office.

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measure in California that would change the way California allocates its Presidential Electors. In addition, it appears that Paul Singer, in his role as policy adviser and Regional Finance Chair to the Giuliani campaign, conspired to hide the fact that he was the source of the funds to the California ballot measure by funneling the funds through a phony out-of-state corporation established for the purpose of making the illegal contribution.

The California ballot measure, known as the Presidential Election Reform Act, would award California's Presidential Electors to the popular vote winner in each congressional district rather than to the winner of the statewide vote. Presidential Election Reform Act, Attachment A. As many observers have noted, the measure could have a decisive impact on the 2008 presidential election by shifting 20 or more electoral votes to the Republican candidate for President. *See San Francisco Chronicle*, "Mystery Man's Key Role in Move to Change Electoral College Rules," September 27, 2007, Attachment B; *Los Angeles Times*, "GOP electoral initiative dealt major blows," September 28, 2007, Attachment C.

Tom Hiltachk, a lawyer whose firm represents the California Republican Party, submitted the measure on July 17, 2007, to California's Attorney General to begin the process of qualifying the measure for the ballot. Before a ballot measure in California can be circulated among the voters, the Attorney General must first issue a title and summary. On September 5, 2007, the Attorney General issued a title and summary for the Presidential Election Reform Act.

Mr. Hiltachk also established a political committee called Californians for Equal Representation to support the qualification and enactment of the measure. Statement of Organization (Form 410) for Californians for Equal Representation, Attachment D. Under California law, ballot measure committees that raise at least \$50,000 are required to disclose donors of \$5,000 or more within 10 business days. Cal. Gov't Code §§ 84605(b), 85309(d). In addition, California law prohibits a person from making a contribution other than in his or her own legal name and it requires an intermediary of a campaign contribution to disclose the true source of the contribution. *Id.* at §§ 84301, 84302.

As of the date that the Attorney General issued a title and summary for the ballot measure, Californians for Equal Representation had not reported receiving any contributions. Because the proponents of the measure would have to submit more than 433,971 signatures by the end of November in order to qualify the measure for the June 2008 ballot, and thereby change the law in time to affect the outcome of the Presidential election in November 2008, the committee had a significant incentive to raise funds quickly.

On September 23, 2007, Californians for Equal Representation reported receiving its first major (and to our knowledge, only) contribution. Californians for Equal Representation, Form 497, Attachment E. Contrary to the campaign's claims regarding the depth of support for the measure in California, the contribution did not come from a California voter, or even a California resident. Instead, the contribution, which was made on September 11, 2007, came from a group that was identified on campaign reports as TIA Take Initiative America, LLC, a

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Missouri corporation. The previously unknown LLC contributed \$175,000 to the California committee.

A review of corporate records in Missouri revealed that the LLC was no more than a front, having been incorporated by a Republican lawyer and Giuliani donor in Union, Missouri on September 10, 2007, the day before the contribution was made. Take Initiative America, LLC, Certificate of Organization, Attachment F. Charles A. Hurth III was identified as the corporation's agent. *Id.* Mr. Hurth donated \$2,000 to the Giuliani campaign and was also the legal agent behind another GOP-funded group called "Choices for America," which solicited contributions to fund a Republican drive to help independent candidate Ralph Nader get on the presidential ballot in 2004. *San Francisco Chronicle*, "Mystery Man's Key Role in Move to Change Electoral College Rules," September 26, 2007, Attachment B. A fundraiser for Choices for America, Steve Wark, has also been a Giuliani contributor and a major Giuliani fundraiser. *Id.*

In response to press inquiries, Mr. Hurth refused to disclose the source of Take Initiative America's funds. *Id.*

After press reports raised questions about whether the contribution violated campaign laws requiring disclosure of the true source of campaign funds, Mr. Hiltachk, along with the campaign's spokesperson, Kevin Eckery, and its chief fundraiser, Marty Wilson, resigned. In a statement issued to the press, Mr. Hiltachk said that he had demanded that Take Initiative America fully disclose the source of its funds and that he had been assured it would do so. *New York Daily News*, "California Moneyman Unmasked," September 28, 2007, Attachment G. Still, the organization refused to disclose any information about its funding, saying through spokesperson Jonathan Wilcox that the corporation would not disclose its donors. *Los Angeles Times*, "GOP electoral initiative dealt major blows," September 28, 2007, Attachment C. Mr. Wilcox was previously a spokesperson for California GOP gubernatorial candidate Bill Simon, who is Mr. Giuliani's campaign co-chair and policy adviser. *San Francisco Chronicle*, "Mystery Man's Key Role in Move to Change Electoral College Rules," September 26, 2007, Attachment B.

Finally, on Friday, September 28, 2007, the *New York Daily News* reported that Mr. Giuliani's Regional Finance Chair and policy adviser – Paul Singer – had revealed that he was the source of the \$175,000 contribution. *New York Daily News*, "California Moneyman Unmasked," September 28, 2007, Attachment G; *The American Prospect*, "What Hedge Funds Risk," July/August 2007, Attachment H; *New York Observer*, "Rudy's Second Quarter Push," June 8, 2007, Attachment I. Marty Wilson, the chief fundraiser for Californians for Equal Representation, confirmed that he had "heard the Giuliani people were interested (in the ballot measure) and we all said our prayers that it would come in." *San Francisco Chronicle*, "Giuliani Fundraiser Gave Big Bucks to State Ballot Measure," September 29, 2007, Attachment J.

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POSSIBLE VIOLATIONS OF FEDERAL CAMPAIGN LAWS

Federal election law imposes strict limits on federal candidates like Mr. Giuliani. Candidates for President are barred from accepting contributions in excess of \$2,300 per person per election and may not accept any contributions from corporations or labor unions. Federal law also restricts the ability of candidates to engage in other forms of fundraising. Indeed, one of the primary purposes of the Bipartisan Campaign Reform Act (BCRA) is to prevent federal candidates from raising soft money.

Under the BCRA, any entity "directly or indirectly established, financed, maintained or controlled by or acting on behalf of" a Federal candidate or officeholder shall not solicit, receive, direct, transfer, or spend funds in connection with an election for Federal office or any election other than an election for Federal office, unless those funds comply with the contribution limits and source prohibitions of the Act. 2 U.S.C. § 441i(e)(1). Thus, a federal candidate who establishes, finances, maintains, or controls a ballot measure committee or an entity established to fund a ballot measure campaign may not solicit, receive, or direct a contribution in excess of the federal limits of from an impermissible source. FEC AO 2003-12; FEC AO 2006-04.

To determine whether a federal candidate has established, financed, maintained, or controlled another entity, like Take Initiative America, the FEC applies the ten factors identified in 11 C.F.R. 300.2(c)(2)(i) through (x), as well as any other relevant factors, in the context of the overall relationship between the federal candidate and the entity. 11 C.F.R. 300.2(c)(2). These factors include whether the candidate or his agents "had an active or significant role in the formation of the entity" and whether the candidate or his agents either provided significant funding for the entity or arranged for significant funding. 11 C.F.R. 300.2(c)(2)(vii)-(ix). As the FEC has noted, "amounts that are so large or that comprise such a substantial percentage of the organization's receipts" would be considered 'financing' a committee under 11 CFR 300.2." FEC AO 2006-04 (citations omitted).

Based on press accounts, it appears that Mr. Giuliani, through his agents, including Mr. Singer, may have established, financed, maintained or controlled Take Initiative America. A donor to Mr. Giuliani incorporated Take Initiative America the day before it received a \$175,000 contribution from Mr. Singer. Mr. Singer is a policy adviser to Mr. Giuliani and a Regional Finance Chair to the Giuliani campaign. He runs a hedge fund in New York and has no apparent connection to California other than his desire to see Mr. Giuliani win the state's electoral votes. Given his official role as a finance chair and policy adviser in the Giuliani campaign, and his lack of any apparent connection to California, it is reasonable to believe that Mr. Singer was acting as Mr. Giuliani's agent in funding the California electoral college

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initiative through the shell LLC, Take Initiative America.² To date, all of the money received from Take Initiative America and passed on to Californians for Equal Representation, has come from Mr. Singer. See FEC AO 2006-04 (finding that 25% of funding constituted "financing" an entity). If, in fact, Mr. Giuliani, through his agents, established, financed, maintained, or controlled Take Initiative America for the purpose of funding the California measure, then the contribution from Mr. Singer far exceeds the federal limit of \$2,300. Furthermore, it is unclear whether Mr. Singer personally made the contribution or made it through a corporation he controls. If it is the latter, the contribution would also violate the prohibition against receipt of a contribution from an impermissible source.

It also appears likely that the Giuliani campaign coordinated with Californians for Equal Representation. According to press reports, Marty Wilson, the chief fundraiser for Californians for Equal Representation, stated that he had heard that the Giuliani people were interested in funding the campaign. Press reports also confirm that Californians for Equal Representation has already spent, or soon plans to spend, the \$175,000 contribution it received from Mr. Singer. *Los Angeles Times*, "GOP electoral initiative dealt major blows," September 28, 2007, Attachment C.

FEC regulations define "coordinated" as:

[M]ade in cooperation, consultation or concert with, or at the request or suggestion of a candidate, a candidate's authorized committee, or a political party committee. . . . [which] includes an agent thereof.

11 C.F.R. § 109.20(a).

The FEC has taken the position that this rule applies to all expenditures, not just expenditures for express advocacy. See 68 Fed. Reg. 421, 425-26 (January 3, 2003) (FEC specifically rejects argument that the provision should be limited to express advocacy communications and should not cover "non-communication expenditures."). Thus, to the extent that the Giuliani campaign coordinated with Californians for Equal Representation to benefit the Giuliani campaign by changing the rules for the Presidential Election, the expenditures by Californians for Equal Representation may have been over-the-limit in-kind contributions to the Giuliani campaign, in violation of federal law.

² FEC regulations define agent as "any person who has actual authority, either express or implied, to engage in any of the following activities on behalf of the specified persons: . . . (3) In the case of an individual who is a Federal candidate or an individual holding Federal office, to solicit, receive, direct, transfer, or spend funds in connection with any election." 11 C.F.R. 300.2(b).

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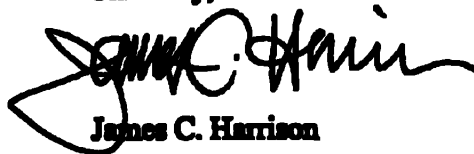
Finally, the contribution made by Mr. Singer appears to have violated California law, which prohibits a person from making a contribution other than in his own legal name and which requires that the true source of a contribution be disclosed. Cal. Gov't Code §§ 84301, 84302. Mr. Singer has acknowledged that he made the payment to Take Initiative America for the purpose of supporting the California ballot measure, but neither he, Take Initiative America, nor Californians for Equal Representation disclosed this fact. *New York Daily News*, "California Moneyman Unmasked, September 28, 2007, Attachment G; Californians for Equal Representation, Form 497, Attachment E. These events raise serious questions about whether a conspiracy existed to evade not only California's campaign disclosure requirements, but also federal campaign limits.

CONCLUSION

We request that the Commission take immediate action to determine whether Rudy Giuliani, through his agents, including Paul Singer, has: (1) established, financed, maintained, or controlled Take Initiative America, LLC; (2) solicited or directed contributions to Take Initiative America, LLC, in excess of the federal limits; (3) solicited or directed contributions to Take Initiative America, LLC, from impermissible sources, such as corporations or foreign entities; (4) coordinated with Californians for Equal Representation in violation of federal law; and (5) conspired or aided or assisted in an effort to conceal the true source of a contribution. In addition, because these potential violations may be knowing and willful, we request that the Commission refer this matter to the Department of Justice pursuant to 2 U.S.C. section 437g(a)(5)(C).

Thank you for your consideration of this matter.

Sincerely,



James C. Harrison

JH:NL
Attachments
(00041929-5)

cc: U.S. Department of Justice, Public Integrity Section
(via Federal Express, w/attachments)

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DECLARATION UNDER PENALTY OF PERJURY

On information and belief, I declare under penalty of perjury and subject to the provisions of section 1001 of title 18 of the U.S. Code that the facts stated herein are true and correct, and that this declaration was executed in Los Angeles, California on October 1, 2007.



Ursula Appell

Los Angeles, CA 90041

NOTARY

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CALIFORNIA JURAT WITH AFFIANT STATEMENT

State of California

County of Los Angeles } ss.

☒ See Attached Document (Notary to cross out lines 1-6 below)

☐ See Statement Below (Lines 1-5 to be completed only by document signer[s], not Notary)

1 _____
2 _____
3 _____
4 _____
5 _____
6 _____

[Signature] _____
Signature of Document Signer No. 1

Signature of Document Signer No. 2 (if any)

Subscribed and sworn to (or affirmed) before me on this

1st day of October 2007, by

(1) URSULA ANGELL
Name of Signer

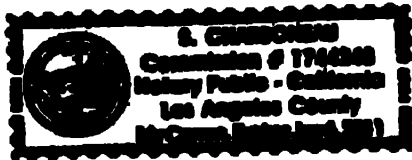
☐ Personally known to me

☒ Proved to me on the basis of satisfactory evidence
to be the person who appeared before me (.) (.)
(and

(2) _____
Name of Signer

☐ Personally known to me

☐ Proved to me on the basis of satisfactory evidence
to be the person who appeared before me.)



Please Notary Seal Above

OPTIONAL

Though the information below is not required by law, it may prove
valuable to persons relying on the document and could prevent
fraudulent removal and reattachment of this form to another document.
Further Description of Any Attached Document

Title or Type of Document: _____

Document Date: _____ Number of Pages: _____

Signer(s) Other Than Named Above: _____

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ATTACHMENT A

**CALIFORNIANS FOR
EQUAL REPRESENTATION
455 CAPITOL MALL, SUITE 801
SACRAMENTO, CA 95814**

July 17, 2007

RECEIVED

JUL 17 2007

**INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE**

Ms. Patricia Galvan
Initiative Coordinator
Office of the Attorney General
State of California
PO Box 994255
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Ms. Galvan:

Pursuant to Article II, Section 10(d) of the California Constitution, I am submitting the attached proposed statewide ballot measure to your office and request that you prepare a title and summary of the measure as provided by law. Included with this submission is the required proponent affidavit signed by me pursuant to section 9608 of the California Elections Code. I have also included a check to cover the \$200 filing fee. My address as registered to vote is provided on Attachment 'A' to this letter.

Thank you for your time and attention to this important matter. If you require additional information or have any questions, please contact me at (916) 442-7757.

Very truly yours,

Thomas W. Hiltachk

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INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO THE VOTERS

Section 1. Findings and Declaration of Purposes

(a) California has more electoral votes for President of the United States than any state in the United States.

(b) Yet, California is largely taken for granted by Presidential Candidates because of its "winner-take-all" system of awarding its electoral votes. In recent elections, Presidential candidates have spent more time trying to win votes in smaller states with just a few electoral votes while largely ignoring voters in California with over 10 times the number of electoral votes.

(c) Our "winner take-all" system of awarding electoral votes does not reflect the vast diversity of our state and the regional differences of our citizenry.

(d) Further, a "winner take-all" system impedes credible third party or independent candidacies for President.

(e) Two states do not have a "winner-take-all" system of awarding electoral votes. Those states award their electoral votes to the candidate winning the popular vote in each of the state's congressional districts with two additional electoral votes being awarded to the candidate who wins the popular vote in the state.

(f) If California eliminated its "winner-take-all" system of awarding its electoral votes, Presidential candidates would have an incentive to campaign in California and to address the unique problems faced by Californians. Many geographic areas of the State would be as important to a candidate's chance for victory as many of the smaller states.

(g) Therefore, the people, exercising their reserved legislative power guaranteed by Article II of the California Constitution, hereby enact the Presidential Election Reform Act.

Section 2. The Presidential Election Reform Act.

(Text added is denoted in underline type. Text deleted is denoted in ~~strikeout type~~.)

Chapter 1 of Part 2 of Division 6 of the Elections Code (commencing with Section 6900) is amended to read:

§ 6900(a) The term "elector" or "presidential elector" as used in this chapter means an elector of President and Vice President of the United States, and not an elector as defined in Section 321.

(b) A political party nominating a candidate for President of the United States and a candidate for Vice President of the United States shall submit to the Secretary of State a certified list of presidential elector nominees who have pledged to vote for the candidates of that political party as follows:

(i) the number of presidential elector nominees shall be equal to the total number or presidential electors of the State pursuant to Section 1 of Article II of the United States Constitution;

(ii) one presidential elector nominee shall reside in each congressional district in the state and the two remaining presidential elector nominees shall reside in the state;

(iii) the manner of choosing presidential elector nominees shall be established by each political party, but in the event a party has no rules for choosing nominees, the candidate for President shall choose the nominees pursuant to subdivision (b)(i) and (ii).

(c) A group of candidates for nomination as a presidential elector for an independent candidate for President of the United States and for Vice President of the United States pursuant to section 8303 shall also meet the requirements of subdivision (b)(i) and (ii).

§ 6901. Whenever a political party in accordance with ~~Section 7100, 7200, 7578, or 7842,~~ submits to the Secretary of State its certified list of nominees for electors of President and Vice President of the United States, the Secretary of State shall notify each candidate for elector of his or her nomination by the party. The Secretary of State shall cause the names of the candidates for President and Vice President of the several political parties to be placed upon the ballot for the ensuing general election and any independent candidate pursuant to section 8304.

§ 6902(a) At the general election in each leap year, or at any other time as may be prescribed by the laws of the United States, there shall be chosen by the voters of the state as many electors of President and Vice President of the United States as the state is then entitled to.

(b) An elector shall be elected in each congressional district if the candidate to whom that elector has pledged to vote received a plurality of the popular vote cast in that congressional district. The two at-large electors shall be elected if the candidates to whom those electors have pledged to vote received a plurality of the popular vote cast in the state.

§ 6903. On or before the day of meeting of the electors, the Governor shall deliver to the electors a list of the names of each electors elected pursuant to section 6902, and he or she shall perform any other duties relating to presidential electors which are required of him or her by the laws of the United States.

§ 6904. The electors elected pursuant to section 6902 chosen shall assemble at the State Capitol at 2 o'clock in the afternoon on the first Monday after the second Wednesday in

December next following their election.

§ 6905. In case of the death or absence of any elector chosen, or if the number of electors is deficient for any other reason, the electors then present shall elect, pursuant to subdivision (b) of section 6902 from the citizens of the state, as many persons as will supply the deficiency.

§ 6906. The electors, when convened, if both candidates are alive, shall vote by ballot for that person for President and that person for Vice President of the United States, who are, respectively, the candidates of the political party or independent candidate which they represent and have pledged to vote. one of whom, at least, is not an inhabitant of this state.

§ 6907. The electors shall name in their ballots the person voted for as President, and in separate ballots the person voted for as Vice President.

§ 6908. The electors shall make separate lists of all persons voted for as President and of all persons voted for as Vice President, and of the number of votes for each cast pursuant to Section 6906, which lists they shall sign, certify, seal, and transmit by mail to the seat of the Government of the United States, directed to the President of the Senate.

§ 6909. ~~Each presidential elector shall receive ten dollars (\$10) for his or her services, and mileage at the rate of five cents (\$0.05) per mile for each mile of travel from his or her domicile to the State Capitol and return.~~

~~Their accounts therefor shall be certified by the Secretary of State, and audited by the Controller, who shall draw his or her warrants for the same on the Treasurer, payable out of the General Fund.~~

Section 3. Severability

The provisions of this section are severable. In any provision in this section or its application is held invalid, that finding shall not affect other provisions or applications that can be given effect without the invalid provision or application.

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ATTACHMENT B

SFGate.com

Mystery man's key role in move to change Electoral College rules

Carla Marinucci, Chronicle Political Writer

Thursday, September 27, 2007

(09-26) 17:38 PDT SAN FRANCISCO -- Until this week, Missouri attorney Charles "Chap" Hurth III was best known for a headline-grabbing incident a decade ago in which he bit a young female law student on the butt in a bar.

Now Hurth, the city attorney for New Haven, Mo. (population 1,800), is the agent for a deep-pocketed group that donated \$175,000 to fund a Republican-backed effort that would reshape the landscape of presidential politics in California.

Hurth has emerged as an unlikely lead player in connection with the ballot measure that seeks to change the way California allocates its Electoral College votes in the presidential election. His actions on behalf of the group Take Initiative America are being examined by the state's Fair Political Practices Commission after accusations from Democrats that the group is hiding the source of its money.

It's not the first time Hurth has been part of an effort that Democrats say has been aimed at changing the outcome of a presidential election. In 2004, he was the legal agent behind a GOP-funded group called Choices for America, which solicited donations from Republicans for another controversial signature drive - to help independent candidate Ralph Nader get on the presidential election ballot in key states, documents show.

Hurth didn't answer repeated phone calls seeking comment this week. But those who know him say they're mystified at his connections to such a high-profile issue that would shape politics half way across the country.

"To my knowledge, he's not involved in local politics to any degree," says Steve Roth, city administrator in tiny New Haven, which is 50 miles from St. Louis. He says Hurth has been on retainer as city attorney since 2004, billing \$100 an hour in his work for the town, and "he's a nice guy."

But Hurth is the registered agent for Take Initiative America, a tax-exempt group formed Sept. 10, 2007, according to the organization's incorporation documents. A day later, the group made its hefty donation to fund petition-gathering that would get the so-called Presidential Election Reform Act on the June ballot.

The donation was the only reported contribution to the ballot-measure campaign, according to financial documents released earlier this week.

The proposed ballot measure would change the winner-take-all election rules for the 55 electoral votes in Democratic-leaning California. It would allocate the electoral votes based on the popular vote winner in each individual congressional district - providing an unexpected windfall for Republicans.

Leading Democratic presidential candidates and Democratic National Committee Chairman Howard Dean have charged that the effort is a Republican dirty trick to change the election rules in the middle of the 2008

presidential campaign.

But Hurth's utter lack of connections to politics in California has raised cries of foul play and suggestions that a major GOP presidential candidate could be behind the matter.

Democrats say Hurth violated the spirit if not the letter of California campaign finance laws because he would not disclose the source of his group's funding.

"Under the law, you're prohibited from making a contribution through an intermediary without disclosing the true donor," said San Francisco attorney James Harrison, representing Californians for Fair Elections, a Democratic group opposing the measure. "That's considered money laundering."

Jonathan Wilcox, the spokesman for the Missouri-based Take Initiative America group, said Hurth's organization is a nonpartisan, grassroots effort working for election reform. But he insisted, "We have a national network of donors ... and we will comply with all disclosure laws."

Roman Porter, spokesman for the state Fair Political Practices Commission, when asked Wednesday about the Democrats' charges, said. "We're aware of the concern regarding this situation, and we're reviewing it."

Hurth also chaired First Class Funding, a 2005 educational reform campaign supported by conservatives and another big political donor, Patrick Byrne, the chief executive officer of the Internet shopping site Overstock.com based in Salt Lake City. Byrne has donated to candidates of both parties as well as the Swift Boat Veterans for Truth effort against 2004 Democratic presidential candidate Sen. John Kerry of Massachusetts.

But Byrne, reached Wednesday, said he has no connection to Hurth's current group or the California Electoral College measure.

"I have not put any money into it, nor have I been asked to donate money," Byrne said in a telephone interview.

The proposed ballot measure, written by Sacramento attorney Thomas Hiltachk - who has represented the state GOP and Republican Gov. Arnold Schwarzenegger - has the potential of shaking up the presidential race.

Under its proposed district-by-district system, Kerry - who won California's popular vote in 2004 - would have received just 33 electoral votes, and Republican President Bush would have earned 22 votes - more than the number awarded in Illinois (21), Pennsylvania (21) or Ohio (20).

Supporters are using paid signature-gatherers to collect roughly 434,000 signatures needed by the end of November to qualify the measure for the June ballot. They said 40,000 have been gathered to date.

But Democrats said the effort is less about reform and more about changing the outcome of the 2008 race. They suggested it's not hard to connect the dots between Hurth and conservative causes, including the presidential campaign of GOP presidential candidate Rudy Giuliani.

Hurth donated \$2,000 in March to the Giuliani campaign, and his fundraising associate in Choices for America, Nevada-based conservative strategist Steve Wark, has been a major donor and fundraiser for Giuliani.

Hiltachk's partner Charles Bell, a deputy treasurer for the proposed initiative, has given \$1,300 to Giuliani, and another Hiltachk law firm partner, Charlotte McAndrews, has donated \$2,300 to the former New York mayor's campaign.

Wilcox, the spokesman for the Hurth group, was previously a spokesman for Bill Simon - the former California GOP candidate for governor who is Giuliani's campaign co-chair and chief policy adviser.

Kevin Eckery, the spokesman for the proposed ballot measure, said "whether it's a front for presidential candidates - even if it was, what's the big deal?"

"We've said all along that some of the people we would approach for fundraising are contributors to various presidential candidates," he said. "If somebody wants to support us because we're trying to create a voting system that's fairer ... what's the problem?"

But Jarrod Agen, a spokesman for Giuliani, strongly denied any connection to the California electoral ballot measure campaign.

"We are absolutely not involved in that effort. We'll play by whatever the rules that Californians decide are in their best interest," he said.

Asked if Hurth has been involved with Giuliani in any capacity, Agen said that he has donated but "he is not involved in the campaign strategy."

This week's media scrutiny for Hurth marks a decided shift from 1990 when he became the focus of national news coverage over an unusual lawsuit.

Hurth, then a third-year law student at St. Louis University, was taken to court by a young woman who said he grabbed her in a bar and bit her on the buttocks so hard she required medical attention - then laughed and high-fived his friends.

Hurth testified that he had told her she should take it as a compliment.

The female attorney sued him and took something else instead - a jury's award of \$27,500 for damages.

E-mail Carla Marinucci at cmarinucci@sfgchronicle.com.

<http://sfgate.com/cgi-bin/article.cgi?file=/c/a/2007/09/27/MNNCSDUH6.DTL>

This article appeared on page A - 1 of the San Francisco Chronicle

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ATTACHMENT C

latimes.com

Big cities are full of little adventures.
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URBAN ADVENTURES SHOPPING.

<http://www.latimes.com/news/nationworld/nation/la-na-initiative28sep28,0,6396472.story?coll=la-home-nation>
From the Los Angeles Times

GOP electoral initiative dealt major blows

Two key consultants for an effort to change California's winner-take-all system quit over money and disclosure woes.

By Dan Morain

Los Angeles Times Staff Writer

September 28, 2007

SACRAMENTO — A proposed California initiative campaign that could have helped Republicans hold on to the White House in 2008 was a shambles Thursday night, as two of its key consultants quit.

Unable to raise sufficient money and angered over a lack of disclosure by its one large donor, veteran political law attorney Thomas Hiltachk, who drafted the measure, said he was resigning from the committee.

Hiltachk's departure is a major blow to the operation because he organized other consultants who had set about trying to raise money and gather signatures for the initiative. Campaign spokesman Kevin Eckery said he was ending his role as well.

There remained a chance that the measure could be revived, but only if a major donor were to come forward to fund the petition drive. However, time is short to gather the hundreds of thousands of signatures needed by the end of November. And backers said Thursday that they believed the measure was all but dead, at least for the 2008 election.

"'Shambles' is the wrong word," said strategist Marty Wilson, who curtailed his fundraising efforts weeks ago. "The campaign never got off the ground."

Intended for the June 2008 ballot, the proposed initiative sought to change California's winner-take-all system to require that electoral votes be awarded based on how individual congressional districts vote.

Democrats were alarmed by the measure because they assume the Democratic nominee must capture all of California's 55 electoral votes to win the presidency. With Republicans holding 19 congressional seats in California, the GOP nominee would be expected to capture at least 19 of the state's electoral votes, nearly as many as are in Ohio.

A candidate needs 270 electoral votes to capture the White House. In the 2000 election, President Bush defeated Al Gore by five electoral votes.

Federal law authorizes states to establish their own methods for selecting electoral votes. As it is, Nebraska and Maine are the only states that allocate electoral votes by congressional district. All the rest select them on a winner-take-all basis.

Despite the attention the measure garnered after a report in the Los Angeles Times' political blog, Top of the

Ticket, and in the New Yorker, it failed to attract significant financial support, perhaps because many Republican donors are less than energized this year, and perhaps because of the slowing economy.

"There is not a huge amount of donor interest in the measure for a variety of reasons," Wilson said. "I'm not willing to keep beating my head against the wall."

The campaign received only one sizable donation -- \$175,000. That is less than one-tenth of the \$2 million typically needed to gather sufficient signatures to qualify a measure for the California ballot.

The donation arrived on Sept. 11, one day after Missouri attorney Charles A. Hurth III created a company called TIA Take Initiative America that served as the vehicle for the donation. But the individual donors to the organization were not known.

Hiltachk said he had demanded that "Take Initiative America fully disclose the source of its funds," and said he was assured it would make such a disclosure soon.

"Nonetheless," Hiltachk said, "I am deeply troubled by their failure to disclose prior to my demand and by their failure to disclose to me or to our committee that Take Initiative America had been formed just one day prior to making the contribution. . . ."

"I am not willing to proceed under such circumstances," Hiltachk said. "Therefore, I am resigning my role in this campaign."

Eckery added: "There's no reason to be cute on campaign contributions. We had nothing to hide, and the public has every right to know."

Eckery said the campaign would keep the money; it has been used to pay signature gatherers and other costs.

Hurth did not return repeated calls seeking comment. His spokesman, Republican consultant Jonathan Wilcox, would not say who provided the \$175,000. Wilcox said the group was planning to donate to other conservative causes around the country, including one in Utah to create school vouchers.

Donors commonly establish entities such as nonprofit corporations to raise money for political campaigns. In at least some instances, donors to such organizations are able to hide their identities.

"I'm not authorized by my clients to speak with the media just yet," Cleta Mitchell, a Washington attorney representing the group, said in an e-mail.

Unlike federal campaign law, California law permits corporations to make political donations. And though there are caps on the size of donations to federal candidates, state and federal law permits donations of unlimited size to support or oppose ballot measures.

Hiltachk said he still believed the measure would "revive California's role in presidential politics, increase voter participation and better reflect the vast diversity of our state."

Democratic consultant Chris Lehane mounted an aggressive opposition campaign that received backing from wealthy donors such as real estate investor and movie producer Stephen L. Bing, who like Lehane is supporting New York Sen. Hillary Rodham Clinton's presidential bid.

On Thursday, Lehane organized a news conference to demand that the organization disclose its donors, and threatened to file a complaint with election regulators.

California Democratic Party Chairman Art Torres also called for disclosure.

"We want to make sure this is not the Freddy Krueger of initiatives that comes back to life," Lehane said. "We'll continue to monitor it. We thought it was a debacle from the beginning and seems it suffered from its own internal dysfunction."

dan.morain@latimes.com

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PARTNERS:



28044214794

ATTACHMENT D

Statement of Organization
Recipient Committee

Statement Type ☒ Initial
Not yet qualified ☐ or

Amendment
Use I.D. number

Amendment
Use I.D. number

Transmittal - See Part 6
Use I.D. number

STATEMENT OF ORGANIZATION

410
RECEIVED AND FILED
in the office of the Secretary of State
of the State of California

AUG 11 2007

Hand Delivered, Sacramento
John R. Brown, Governor

06 / 01 / 2007
Date qualified as committee

Date qualified as committee
(qualifying)

Date of Transmittal

1. Committee Information

NAME OF COMMITTEE
California for Equal Representation

STREET ADDRESS (PO BOX, ETC.)
455 Capitol Mall, Suite 801

CITY
Sacramento

STATE
CA

ZIP CODE
95814

AREA CODE/PHONE
916-442-7787

CITY
Sacramento

STATE
CA

ZIP CODE
95814

AREA CODE/PHONE
916-442-7787

CITY
Sacramento

STATE
CA

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95814

AREA CODE/PHONE
916-442-7787

CITY
Sacramento

STATE
CA

ZIP CODE
95814

AREA CODE/PHONE
916-442-7787

2. Treasurer and Other Principal Officers

NAME OF TREASURER
Thomas W. Hiltch

STREET ADDRESS
455 Capitol Mall, Suite 801

CITY
Sacramento

STATE
CA

ZIP CODE
95814

AREA CODE/PHONE
916-442-7787

CITY
Sacramento

STATE
CA

ZIP CODE
95814

AREA CODE/PHONE
916-442-7787

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CITY
Sacramento

STATE
CA

ZIP CODE
95814

AREA CODE/PHONE
916-442-7787

CITY
Sacramento

3. Verification

I have read all reasonable disclosure in preparing this statement and to the best of my knowledge the information contained herein is true and complete. I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on 08/01/07

DATE

By

DATE

By

DATE

By

DATE

Statement of Organization
Recipient Committee

STATEMENT OF ORGANIZATION
Page 2
410
LA NUMBER

INSTRUCTIONS ON REVERSE

P. 02

COMMITTEE NAME

California for Equal Representation

4. Type of Committee Complete the applicable section.

8:45

- Let the name of each controlling officer, candidate, or state measure proponent. If candidate or officer/holder controlled, also list the elective office sought or held, and district number, if any, and the year of the election.
- List the political party with which each officer/holder or candidate is affiliated or check "non-partisan."
- If this committee acts jointly with another controlled committee, list the name and identification number of the other controlled committee.

Aug 15 2007

NAME OF CANDIDATE/OFFICER/MEASURE PROPOSER	ELECTIVE OFFICE SOUGHT OR HELD (INCLUDE DISTRICT NUMBER IF APPLICABLE)	YEAR OF ELECTION	PARTY
			<input type="checkbox"/> Non-Partisan
			<input type="checkbox"/> Non-Partisan

Fax: 9166595045

- List the financial institution where the campaign bank account is located (controlled "candidate election" committees only)

NAME OF FINANCIAL INSTITUTION	AREA CODE-PHONE	BANK ACCOUNT NUMBER
ADDRESS	CITY	STATE ZIP CODE

Primary issued to support or oppose specific candidate or measure in a single election. List below:

CANDIDATE/NAME OR MEASURE/STATE FULL TITLE (INCLUDE BALLOTING OR LITIGATION)	CANDIDATE/NAME OR MEASURE/STATE FULL TITLE (INCLUDE BALLOTING OR LITIGATION)	CANDIDATE/NAME OR MEASURE/STATE FULL TITLE (INCLUDE BALLOTING OR LITIGATION)
Presidential Election Reform Act	Statewide - California	K

Statement of Organization
Recipient Committee

STATEMENT OF ORGANIZATION
410
Page 2
DATE

INSTRUCTIONS ORGANIZERS

COMMITTEE NAME

Candidates for Equal Representation

4. Type of Committee (Continued)

Not listed to support or oppose specific candidate or measure in a single election. Check only one box:

☐ CITY Committee ☐ COUNTY Committee ☐ STATE Committee

PROVIDE BRIEF DESCRIPTION OF ACTIVITY

List additional sponsors on an attachment.

NAME OF ORGANIZATION

INDUSTRY GROUP ON APPLICATION OF RESEARCH

STREET ADDRESS

NO. AND STREET

CITY

STATE

ZIP CODE

☐ Date qualified ☐ Check box and provide the date this committee qualified as a unit of candidate committee. If the committee qualified as a unit of candidate committee on January 1, 2007, enter "JAN1".

5. Termination Requirements By doing so verification, the treasurer, assistant treasurer, candidate, officer, or proposed officer and all other following conditions have been met:

- This committee has ceased to receive contributions and make expenditures;
 - This committee does not anticipate receiving contributions or making expenditures in the future;
 - This committee has eliminated or has no intention or ability to discharge all debts, loans received, and other obligations;
 - This committee has no surplus funds; and
 - This committee has filed all campaign statements required by the Political Reform Act disclosing all reportable transactions.
- There are restrictions on the disposition of surplus campaign funds held by elected officers who are leaving office and by defeated candidates. Refer to Government Code Section 82519.

28044214798

ATTACHMENT E

Late Contribution Report

Type or print in ink.
Amounts may be rounded to whole dollars.

LATE CONTRIBUTION REPORT

NAME OF FILER Candidates for Equal Representation		Date of This Filing 09/24/2007		Date Stamp	Page 1 of 2
AREA CODE/PHONE NUMBER		Report No. 193201-01			
STREET ADDRESS		<input type="checkbox"/> Amendment to Report No. _____ (specify below)			
CITY		No. of Pages 2			
STATE					
ZIP CODE					

497
For Official Use Only

Late Contribution(s) Received

DATE RECEIVED	FULL NAME, MAILING ADDRESS AND ZIP CODE OF CONTRIBUTOR <small>(if contributor not, please enter N/A, country)</small>	CONTRIBUTOR CODE *	IF AN INDIVIDUAL ENTER OCCUPATION AND EMPLOYER <small>(if self-employed, enter total of business)</small>	AMOUNT RECEIVED
09/11/2007	TIA Telo Initiative Associates, LLC Union, MO 63084	<input type="checkbox"/> IND <input type="checkbox"/> COM <input checked="" type="checkbox"/> OTH <input type="checkbox"/> PTY <input type="checkbox"/> SOC		\$175,000.00
		<input type="checkbox"/> IND <input type="checkbox"/> COM <input type="checkbox"/> OTH <input type="checkbox"/> PTY <input type="checkbox"/> SOC		
		<input type="checkbox"/> IND <input type="checkbox"/> COM <input type="checkbox"/> OTH <input type="checkbox"/> PTY <input type="checkbox"/> SOC		

*Contributor Codes	PTY - Political Party
IND - Individual	SOC - Small Contributor Committee
COM - Resident Committee (other than PTY or SOC)	
OTH - Other	

Reason for Amendment:

Late Contribution Report

Type or print in ink.
Amounts may be rounded to whole dollars.

LATE CONTRIBUTION REPORT

NAME OF FILER Candidate for Regal Representation		Date of This Filing 09/24/2007	Date Stamp	497 For Official Use Only
AREA CODE/PHONE NUMBER	I.D. NUMBER (optional) 129979	Report No. 19201-01	Page 2 of 2	
<input type="checkbox"/> Amendment to Report No. _____ (explain below)				
No. of Pages 2				
STREET ADDRESS				
CITY Sacramento	STATE CA	ZIP CODE 95814		

Late Contribution(s) Made

DATE MADE	FULL NAME, MAILING ADDRESS AND ZIP CODE OF RECIPIENT (if contributor, ALSO ENTER I.D. NUMBER)	CANDIDATE AND OFFICE OR MEASURE AND JURISDICTION	AMOUNT OF CONTRIBUTION	DATE OF ELECTION (if applicable)

Reason for Amendment:

28044214801

ATTACHMENT F



State of Missouri
Robin Carnahan, Secretary of State

Corporations Division
P.O. Box 778 / 600 W. Main Street, Rm 322
Jefferson City, MO 65802

File Number:
LC0841128
Date Filed: 09/10/2007
Robin Carnahan
Secretary of State

Articles of Organization
(Submit with filing fee of \$103)

1. The name of the limited liability company is:

T. I. A. LLC

(Must include "Limited Liability Company," "Limited Company," "LLC," "L.C.," "L.L.C.," or "LLC")

2. The purpose(s) for which the limited liability company is organized: All legal Purposes

3. The name and address of the limited liability company's registered agent in Missouri is:

C. A. HUETH, III 301 EAST MAIN STREET Union MO
Name Street Address: May not use P.O. Box unless street address also provided City/State/Zip 63083

4. The management of the limited liability company is vested in: ☐ managers ☒ members (check one)

5. The events, if any, on which the limited liability company is to dissolve or the number of years the limited liability company is to continue, which may be any number or perpetual: Twenty (20) years

(The answer to this question could cause possible tax consequences; you may wish to consult with your attorney or accountant)

6. The name(s) and street address(es) of each organizer (P.O. Box may only be used in addition to a physical street address):

C. A. HUETH 301 EAST MAIN STREET Union Mo 63083

7. The effective date of this document is the date it is filed by the Secretary of State of Missouri, unless you

indicate a future date, as follows: 9/10/07

(Date may not be more than 90 days after the filing date in this office)

In Affirmation thereof, the facts stated above are true and correct:

(The undersigned understands that false statements made in this filing are subject to the penalties provided under Section 575.040, RSMo)

Charles Alan Hueth, III
Organizer Signature

Charles Hueth
Printed Name

9/10/07
Date

Organizer Signature

Printed Name

Date

Organizer Signature

Printed Name

Date

Name and address to return filed document:

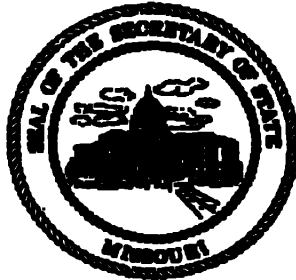
Name: _____
Address: _____
City, State, and Zip Code: _____

State of Missouri
Creation - LLC/LP 1 Page(s)



10/2006001

State of Missouri



Robin Carnahan
Secretary of State

CERTIFICATE OF ORGANIZATION

WHEREAS,

T.I.A. LLC
LC0841125

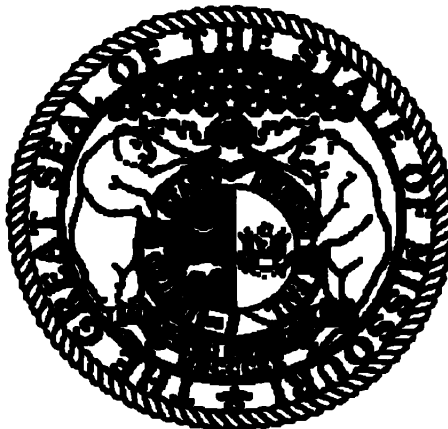
filed its Articles of Organization with this office on the 10th day of September, 2007, and that filing was found to conform to the Missouri Limited Liability Company Act.

NOW, THEREFORE, I, ROBIN CARNAHAN, Secretary of State of the State of Missouri, do by virtue of the authority vested in me by law, do certify and declare that on the 10th day of September, 2007, the above entity is a Limited Liability Company, organized in this state and entitled to any rights granted to Limited Liability Companies.

IN TESTIMONY WHEREOF, I hereunto set my hand and cause to be affixed the GREAT SEAL of the State of Missouri. Done at the City of Jefferson, this 10th day of September, 2007.

Robin Carnahan

Secretary of State



28044214803

28044214804

ATTACHMENT G

September 28, 2007

MOUTH EXCLUSIVE: CALIFORNIA MONEYMAN UNMASKED

Rudy Giuliani's top fundraiser, hedge fund giant Paul Singer, revealed himself today as the sole financial backer of a stalled ballot drive to turn California into a motherlode of Republican votes in 2008.

Singer's disclosure, made in a statement to The Daily News, came a day after Republican operatives in the Golden State announced they were halting their ballot effort, in part because they were unsure of their own funders' identity.

The group, Californians for Equal Representation, had received exactly one donation for \$175,000, from a mysterious, Missouri-based corporation identified only as Take Initiative America.

The lack of specifics left organizers in California open to allegations they had something to hide, and several — among them lead lawyer Tom Hiltachk and spokesman Kevin Eckery — resigned Thursday rather than defend the arrangement.

"I have demanded that Take Initiative America fully disclose the source of its funds and have been assured that it will do so," Hiltachk said in resigning. "Nonetheless, I am deeply troubled by their failure to disclose."

But Singer, apparently eager to put the disclosure issue to rest, yesterday stepped out of the shadows to reveal himself.

"I contributed to the Take Initiative America because I believe in proportional voting in the Electoral College," Singer said in a statement e-mailed to The News. "I made the contribution without any restrictions, including whether or how it would need to be disclosed. I left disclosure completely up to TIA."

Sources added later that all \$175,000 came from Singer, a founding partner of Elliot Associates, a \$7 billion hedge fund with a long history of funding GOP causes.

The ballot initiative, if approved, would have changed how California apportions its electoral college votes. Under the states' current winner-take-all system, the Democratic nominee has traditionally pocketed all 55 electoral votes in the left-leaning state — the nation's largest electoral prize.

Instead, electoral votes would be apportioned to the winner in each congressional district — a change likely to shift up to 22 of those 55 votes into the GOP column, given the number of safely Republican districts in the state.

For the GOP, it would be a bonanza, akin to adding a large, new Republican state to the map.

"It's the practical equivalent of painting Ohio or Pennsylvania red, before the election even starts," said Republican consultant Dan Schnur.

Sources close to Singer insisted that his support for the ballot change was unrelated to his work for the Giuliani campaign, where he is a member of the national finance committee.

Campaign insiders say Singer has helped raise well over \$500,000 for the former mayor's presidential bid, making him their top rainmaker.

But opponents of the ballot drive scoffed at suggestions Giuliani wasn't at least tacitly aware of Singer's giving.

"It's pretty clear that all of this is coming back to bite Rudy in his posterior," said Democratic strategist Chris Lehane, who had worked to defeat the ballot initiative.

Giuliani senior advisor Anthony Carbonetti said simply, "There is no coordination between the Giuliani campaign and any statewide effort."

Either way, it seems unlikely Singer's disclosure will resurrect the ballot push.

When told of Singer's involvement late Friday, Eckery said simply, "I am glad someone is coming forward. And from our standpoint, it would have been perfectly fine to have his name earlier."

- Dave Saltonstall

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ATTACHMENT H

9 of 16 DOCUMENTS

The American Prospect

July 2007 - August 2007

What Hedge Funds Risk

BYLINE: BARBARA T. DREYFUSS.

Barbara T. Dreyfuss is a senior correspondent for The American Prospect.

SECTION: FEATURES; Pg. 30 VOLUME 18 NUMBER 7

LENGTH: 3338 words

HIGHLIGHT: Increasingly, everyone's money--that's what. Nobody rides herd on these unregulated investment funds, which now manage a tidy \$1.5 trillion.

BRYAN HUNTER THINKS HE KNOWS SOMETHING ABOUT hedge fund investing. The 33-year-old Canadian energy trader is starting his own firm and reportedly has already raised nearly \$1 billion for the endeavor. No matter that Hunter was largely responsible for risky natural gas investments, which last September lost more than \$6 billion for his then-employer, Amaranth Advisors, one of the largest hedge funds, causing it to collapse. No matter that the San Diego County pension fund is suing him for \$150 million of the \$175 million they invested with Amaranth, saying Hunter failed to deliver the diversified and risk-controlled investment strategy he had promised. No matter that a Senate committee is investigating manipulation of the natural gas futures market related to Hunter's investments.

Hunter's investment strategies were already being questioned when he went to Amaranth in 2004, embroiled in lawsuits with his former employer, Deutsche Bank. But because hedge funds operate in the shadows, with scant regulation of their investments or the information they give investors, there's little to keep Hunter from continuing to recklessly invest other people's money.

Hunter can maintain his career because hedge funds are money managers that make enormously risky investments but are nonetheless virtually unregulated. Once, hedge fund investors were limited to the very rich, and few political leaders were concerned about what they did. But there's a new urgency for reform now because that is no longer the case. Increasingly, pension funds, school endowments, and charities in pursuit of easy money are turning to these investments and potentially putting their funds in jeopardy. Currently, about 20 percent of pensions invest in hedge funds. Although, on average, they invest about 5 percent of assets, some invest much more. And a law signed by President Bush last summer makes pension investment in hedge funds even easier. At the same time, nearly two-thirds of endowments, including university and charitable organizations, invest through hedge funds, allocating an average of 18 percent of their invested assets. A Bank of New York study estimated that by the end of the decade, institutions, including pension funds, would account for about one-third of new money to hedge funds.

Even the viability of corporations is being put at risk by hedge fund managers' demands that they allocate money to shareholders, rather than invest for long-term

growth of the company's plant, equipment, and workforce. And regulators worry, too, that if a large enough hedge fund abruptly collapses, it could broadly destabilize financial markets.

This relatively sudden expansion is receiving new scrutiny on Capitol Hill, in state legislatures, and from international economic organizations. Pressed by German officials, members of the Group of Eight nations held two meetings on hedge funds so far this year, and International Monetary Fund officials have been publicly raising an alarm. On Capitol Hill, just a few months after he took over the House Financial Services Committee in January, Democratic Representative Barney Frank launched a series of hearings on hedge funds. "Many of us are concerned about the effect on workers and employers," warned the congressman at his March hearing.

In the Senate, Finance Committee member Charles Grassley, a Republican, after failing by amendment to empower the Securities and Exchange Commission (SEC) to oversee hedge funds, formally introduced legislation to do so in May. In Connecticut, home to many hedge funds, state Attorney General Richard Blumenthal warned that "hedge funds remain a regulatory black hole." He has been working with state legislators to get better visibility into their activities.

There are, however, significant obstacles to reform, not least of which are the millions of dollars that hedge fund managers contribute to political campaigns, including those of nearly every presidential candidate in the 2008 race. The question is whether the cowboys of Wall Street can be reined in before innocent people get hurt.

IRONICALLY, HEDGE FUNDS WERE CONCEIVED AS A WAY FOR INVESTORS to protect their money by "hedging" the risks of long-term stock investments. Unlike mutual funds, which only invested in stocks and bonds and made money only when prices rose, hedge funds were able to invest in ways that could make money if stock, bond, commodity, and currency prices fell. So they were careful about balancing investments and not exposing clients too much to one investment strategy.

While a few hedge funds existed earlier, they took off in the 1970s and 1980s because new investment opportunities were created in world currencies and in the futures and options markets, which opened up commodity trading and allowed leveraged investing. Investors could make big bets, magnifying their potential wins (or losses), while only putting down a little money.

This was the time of legendary commodity and currency traders such as George Soros, Bruce Kovner, Julian Robertson, and of enormous hedge fund profits, ranging from 50 percent to 100 percent. These traders were very good at making money for their investors, and many wealthy people sought them out. They were so good that investors were willing to give them 20 percent of profits, along with 2 percent fees. John Makin, a scholar at the American Enterprise Institute and a principal at a major hedge fund, Caxton Associates, told a forum two years ago that "in the first 10 years of the industry, they were all superb risk managers."

Hedge funds were allowed to be exempt from the securities laws regulating mutual funds because their clients were limited to the very wealthy: Only people with a net worth of more than \$1 million or with \$200,000 in income could buy in. Rich investors were considered sophisticated enough to evaluate their managers. And if they lost money, nobody was too worried. In the 1980s, the largest hedge funds managed several hundred million dollars. They had a limited number of investors, and were concerned with building long-term relationships with them. Due to their successes, the number and size of these funds grew dramatically, and by the early 1990s the largest managed more than a billion dollars.

But success created problems. As more and more hedge funds were set up, there

were not enough stellar managers who could earn returns of 50 percent or more. And as the hedge funds received more money to manage, there was just too much money chasing too few opportunities. In the late 1990s, some funds actually reduced their size, returning money to investors.

The problems of low-performing managers and too much money under management grew worse in the early 2000s as the stock market bubble--and stocks such as Enron's--collapsed. With mutual fund earnings tanking, individual investors, pension funds, and endowments started pulling out of them, looking for better returns. Money poured into hedge funds and new ones popped up everywhere. In 1990 there were 610 hedge funds trading in U.S. dollars, according to Chicago-based Hedge Fund Research (HFR). The number increased to 3,873 by 2000, and to 9,462 today. Assets grew as well, and today HFR says hedge funds manage nearly \$1.5 trillion. The top three hedge funds today manage more than \$30 billion each, and at least a dozen have more than \$10 billion in assets.

Many of the new funds were started by former mutual fund managers whose funds and salaries had collapsed, and many of these managers were unprepared for the fast-moving and complex world of hedge fund management. This inexperience, coupled with enormous growth in the assets of hedge funds, set the stage for many of the problems that are surfacing today. Hedge fund managers are under pressure to replicate the huge returns of the 1980s, but today's conditions mean that is very difficult. This has led many of them to try riskier ways of making money. Hedge fund managers, under pressure from their clients, watch returns "daily, even hourly," says Jeff Wiggins, a recently retired money manager who worked for pension funds, a hedge fund, and a mutual fund. If they see losses, they "have an incentive to take on higher risk to get into the black."

Many hedge funds have abandoned hedging altogether because it eats up some of their returns. They are branching out into many areas and trying to be experts in all of them. "Hedge funds no longer focus mainly on stocks, bonds, and currencies," longtime hedge fund manager Jeffrey Matthews told a House hearing in March, adding that many no longer actually hedge against market declines. Instead, he warned, they have "branched into subprime debt, distressed securities, real estate, uranium ore, and even grain sales"--areas that are more complex, and in some cases more inherently risky, than more traditional investments.

Fund managers are also willing to take big risks since they don't lose money themselves if their investments tank. Under the current system, they get 20 percent of any earnings, but pay nothing if their investments fail. It is only their clients who lose. "If a hedge fund manager racks up a nasty loss, he or she can just walk away ... and leave the losses to the clients," says Wiggins. And so hedge funds are quick to come and go. Of about 40 firms one job-hunting manager says he interviewed with four years ago, none are in existence today. In 2005 there was an attrition rate of 11 percent, according to HFR. That year there were 8,661 funds; 2,073 were brand new and 848 closed up shop.

THE FRENZY FOR RETURNS IS RAISING THE POSSIBILITY THAT HEDGE funds will do whatever it takes, including manipulating the market, to profit. As officials of the British financial regulatory agency have warned, today's hedge fund managers are "testing the boundaries of acceptable practice with respect to insider trading and market manipulation."

Stock price manipulation by hedge funds has been rumored in corporate corridors for years. Hedge funds retorted that companies were just trying to prevent exposure of their problems. Indeed research done by hedge funds has helped expose corporate corruption, such as at Enron. But the frenetic Jim Cramer, who ran a major hedge fund, Cramer, Berkowitz & Co., for more than a dozen years, recently boasted publicly that market manipulation is indeed how the system works. In a December 2006 appearance on Wall Street Confidential, an Internet show that is part of his

financial news, commentary, and video conglomerate, Cramer detailed how easy it is to manipulate stock prices. Suppose, said Cramer, his investments were tied to Apple's stock tanking, and suppose that stock began to rise. In such a case, he said, he would, "pick up the phone and call six trading desks" at brokerage houses and tell them people at Verizon were panning Apple. "That's a very effective way to keep a stock down," he chuckled. "I might also buy January puts"---stock options that anticipate a stock going down. This, said Cramer, creates an image that bad news is coming. And, he added, you then call investors and reinforce that image. "The way the market really works is you hit the nexus of the brokerage houses with a series of orders that can be leaked to the press, and you get it on CNBC, and then you have a vicious cycle down."

Today some corporations are so convinced that hedge funds are trying to destroy them they are going to court. Last July, Fairfax Financial Holdings, a large Canadian insurance company, filed a \$6 billion lawsuit charging that a group of hedge funds ran a vicious campaign to discredit the company and drive its stock price down in order to reap millions in profit. The lawsuit claims that the hedge funds sent emails and made phone calls to employees, investors, regulators, and the press implying that the CEO had embezzled church money, cooked the firm's books, and lied about the company's business successes, among other actions, to send the stock price down. Lawyers for the hedge funds refused to comment.

Two other companies, Biovail and Overstock.com, have filed lawsuits charging hedge funds with conspiring with independent research analysts to issue false reports that would drive down their stocks. The research company has denied this, as have the funds. But three employees of the research firm submitted sworn affidavits in the lawsuits giving support to the charges.

The independence of research companies may also get continued scrutiny, given that hedge funds are often the main buyers of their products. Even if they don't control what is written, hedge funds want inside information about when reports will be issued or what they might say, both of which can move stocks. One former hedge fund employee says she was urged to date investment analysts so she could learn such information.

There is also widespread worry that hedge funds are using their enormous clout with brokers and investment banks to get inside information about mutual fund trading activity. Hedge funds have become the most important clients of Wall Street brokers and bankers like Merrill Lynch, Bear Stearns, and Morgan Stanley. When they trade their \$1.5 trillion in assets, they pay these banks and brokers high fees, usually much higher than mutual funds. Hedge funds account for about 30 percent of all stock trading. That means a lot of trading fees, plus more for the many other services the banks and brokers provide to them. "They are the biggest clients on Wall Street," says Stan Schiffman, who recently retired after 35 years working for brokerage houses as a senior institutional salesman. "Wall Street caters to these people." Last year SEC Commissioner Roel Campos, a former federal prosecutor appointed to a second term at the SEC by President Bush, warned that "broker-dealers may place the interest of hedge fund clients over the interest of other clients."

SEC chairman Christopher Cox told leaders of the SEC's regional offices in March that policing possible insider trading by hedge funds would be a top regulatory priority for the agency over the next two years. The SEC is currently investigating reports that hedge funds get advance word from brokers about mutual fund trades. The investigation was prompted, in part, by the Investment Company Institute (ICI), which represents mutual funds. "A major concern of the Institute is the leakage of mutual fund trading information," says Ari Burstein, senior counsel of the ICI. "This is a critical issue for mutual funds and their 94 million shareholders." Brokerage firms and hedge funds have already paid hundreds of millions of dollars in fines over the last several years for unlawful joint activities in the purchase

of mutual funds. Last year, for example, the SEC fined Bear Stearns Securities \$250 million for a pattern of illegal late trading of mutual funds over four years. An SEC official warned at a hedge fund conference two years ago that the agency had identified 400 hedge funds they believed were participants in these schemes.

Another major concern is that the huge growth in assets that hedge funds manage now allows many of them to buy enough shares of corporate stock to control even large corporations. The fear is they will seek radical changes that might bring them quick profits, but ruin the company. Campos recently warned that this activism raises the specter of "the corporate raider" of the 1980s. "Hedge funds may attempt any number of measures to extract the maximum financial benefit from their investment, including trying to force a sell-off of assets and restructuring remaining operations," he warned. "During the 1980s, this often meant plant closing, mass layoffs, demands for wage and benefit concessions from workers, and seizure of pension plan assets. Despite the passage of time, the same concerns may be legitimate today." This concern is echoed by Ron Blackwell, the chief economist at the AFL-CIO. Hedge funds, he warns, may get huge returns on their investments in companies by "reorganizing them, often at a disadvantage to the people who work for them, or in some cases, to the survival of the company itself."

Recent events at Algoma Steel show there is reason to worry. The management and union at the Canadian company waged a long fight against demands by a hedge fund, Paulson & Co., which recently bought 19 percent of the company. Paulson, the largest shareholder, wanted an immediate return on its investment in the company, and demanded that Algoma distribute \$400 million Canadian of its cash reserves to shareholders. Paulson also wanted to replace Algoma's board because it had rebuffed earlier efforts for a payout. Company management refused, saying steel and raw material prices were fluctuating and the money might be needed if prices went up. The United Steelworkers union argued the money should be used to pay for a needed blast furnace upgrade, to meet pension benefit and debt obligations, and to ensure the long-term viability of the company. But the continued demands from the hedge fund finally forced the company to cave, though they were able to reduce the payout to shareholders to half of the original demand.

ALTHOUGH WORLD LEADERS, INTERNATIONAL AND U.S. regulators, and members of Congress are all raising concerns about hedge funds, regulatory oversight is not likely to happen soon. On the international front, German efforts to implement greater oversight of hedge funds have been met with resistance from U.S. and British officials. Domestically, the modest effort two years ago by the SEC, under its previous chairman, to require funds to register with the commission and to keep auditable records, was struck down by an appeals court last year, prompting Grassley's recent legislative efforts. While Barney Frank has taken up the issue in the House, it is not yet clear how far he wants to go or what support he will get. A recent report by a presidential advisory group, headed by the Treasury Secretary, concluded that the current oversight structure was adequate.

So far, there is little indication that things will change in the next administration, given the support hedge fund managers are giving to presidential aspirants of both parties. Democratic hopefuls, including Hillary Clinton, Barack Obama, Christopher Dodd, and John Edwards, as well as Republican hopefuls Rudolph Giuliani, John McCain, and Mitt Romney, have all raised tens of thousands of dollars from hedge funds. Clinton, Giuliani, and Obama all count hedge fund executives as important fund raisers for them. Giuliani considers Paul Singer, founder of the \$7 billion hedge fund Elliott Associates, a major policy adviser. Edwards worked for a year as an adviser to the hedge fund company Fortress Investments, but quit when he launched his presidential bid. So far there is little talk among the candidates about hedge funds, except how much they will contribute to campaigns.

In 1929 stock manipulation, insider trading schemes, and massive speculative

investments, brought down Wall Street and led to the Great Depression. But it was only after the damage was done that these schemes came to light. In 1933, after the election of a Democratic president, Franklin Delano Roosevelt, and a Democratic Senate, a stalled investigation into what had happened came to life. The findings of the investigation, dubbed the Pecora Commission after commission leader and Senate Banking Committee chief counsel Ferdinand Pecora, shocked the country and led to the securities laws that oversaw most of Wall Street's activities.

Oversaw most of Wall Street, that is, until now. Today a huge chunk of Wall Street's assets and much of its activities are once again shrouded in secrecy and unregulated. In his memoirs, Pecora wrote that the Wall Street schemes that led to the 1929 collapse could "not long have survived the fierce light of publicity and criticism." The question is whether Congress will forcefully investigate, now, what is happening in the murky hedge fund world, or whether it will take a major blow-up to force action.

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ATTACHMENT I

1 of 3 DOCUMENTS

New York Observer

June 8, 2007

Rudy's Second-Quarter Push

BYLINE: Jason Horowitz

LENGTH: 119 words

Rudy Giuliani is looking to boost his second-quarter fund-raising numbers with a dinner for donors at the Sheraton on June 20, according to a one of the campaign's top contributors.

The minimum ticket for the event is \$1,000, and Rudy's key backers are pitching the event as a "great time to impact Rudy's 2nd quarter results!" The dinner is being organized by Paul Singer, the campaign's eastern regional Finance Chairman and Ken Langone, the New York City finance chair, according to an invitation passed on by the supporter.

Giuliani's campaign often argued that it got a late start in the first fund-raising quarter, in which he reported nearly \$15 million in donations, and that the second would be more impressive.

LOAD-DATE: September 19, 2007

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ATTACHMENT J

SFGate.com

Giuliani fundraiser gave big bucks to state ballot measure

Carla Marinucci, Chronicle Political Writer

Saturday, September 29, 2007

(09-28) 17:42 PDT San Francisco --

A major New York fundraiser for GOP presidential candidate Rudy Giuliani has been revealed as the money man behind a proposed ballot measure that would have changed California's winner-take-all Electoral College vote system - and likely benefited Republicans.

Paul Singer, a billionaire hedge fund executive and Giuliani policy adviser, acknowledged his role to the New York Daily News on Friday just a day after GOP organizers in California said they were folding their effort to collect signatures for the group called Californians for Equal Representation.

The Chronicle reported earlier this week that Missouri attorney Charles Hurtt III was the legal agent for a tax-exempt corporation called "Take Initiative America," which provided the sole donation - \$175,000 - to the effort to qualify the measure for the California ballot.

But Hurtt and his organization would not reveal the source of their money - even as Democrats in California threatened legal action and charged that the GOP-backed effort smacked of money laundering. They suggested there were numerous links between the ballot effort and the Giuliani campaign, and challenged the former New York mayor's campaign aides to reveal where the money came from. Giuliani spokesman Jarrod Agen told The Chronicle, "This is completely independent from our campaign, and frankly, it's not an initiative that serves our campaign's best interests."

The Presidential Election Reform Act would have changed the winner-take-all election rules for the 55 electoral votes in Democratic-leaning California. It would have required the electoral votes to be distributed based on the popular vote winner in each congressional district. Many political observers said that would probably have provided an unexpected windfall for Republicans - perhaps as many electoral votes as could be gained in a major state such as Ohio or Pennsylvania - and possibly changed the outcome of the 2008 presidential election.

The news of Singer's donation came after Sacramento attorney Tom Hiltachk, who wrote the Presidential Election Reform Act, and spokesman Kevin Eckery both resigned Thursday from the ballot measure operation. They joined lead fundraiser Marty Wilson, who also is a top fundraiser for Gov. Arnold Schwarzenegger, in abandoning the effort.

The group had begun circulating petitions to gain the necessary voter signatures to put the measure on the June 2008 state ballot.

"I have demanded that Take Initiative America fully disclose the source of its funds and have been assured that it will do so," Hiltachk said in a statement reported Friday by the Daily News.

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"Nonetheless, I am deeply troubled by their failure to disclose."

But later, Singer revealed himself to the newspaper as the key contributor in the effort. Singer is a founding partner of Elliot Associates - a \$7 billion hedge fund reported to be a longtime backer of GOP causes.

Singer is a member of Giuliani's national finance committee and has generated more than \$500,000 for the Republican's presidential campaign.

"We heard that (Singer) was interested, but I never spoke with him, and never solicited the donation," Wilson told The Chronicle on Friday.



"I'd heard the Giuliani people were interested (in the ballot measure) and we all said our prayers that it would come in."

But Wilson said he didn't know of Singer's donation.

"It wasn't anything I had anything to do with," Wilson said Friday.

The revelation about Singer was met with outrage by Democratic operatives who had fought the ballot measure and called it a "dirty trick" by Republicans aimed at changing the outcome of the 2008 election.

They said Singer's admission confirmed what they believed all along - that the GOP presidential candidate's backers believed he might have benefited from the effort.

"This puts this money-laundering operation right inside the Giuliani campaign ... with Rudy's top donor and his closest confidants," said Chris Lehane, a Democratic strategist and spokesman for Californians for Fair Election Reform, which fought the GOP-backed ballot measure.

"Federal election law is clear. If you're a presidential candidate, you or your agents can't direct money to a campaign that impacts the presidential campaign ... and there's no better way to rig the campaign than to impact the electoral college system."

But Jonathan Wilcox, a spokesman for Take Initiative America - the Missouri group that provided the funding to the California effort - said Friday that Singer's donation draws no direct connection to the Giuliani campaign.

"People who are active and involved at a high level in partisan politics tend to be a fraternity of the same players ... and tend to give to a wide array of causes," he said.

"I contributed to the Take Initiative America because I believe in proportional voting in the Electoral College," Singer said in a statement e-mailed to the Daily News. "I made the contribution

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without any restrictions, including whether or how it would need to be disclosed. I left disclosure completely up to "Take Initiative America."

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<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2007/09/29/MNSESGGJB.DTL>

This article appeared on page A - 8 of the San Francisco Chronicle

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"The willing suspension of disbelief."

- Hillary Clinton, 9/11/07

**The Democrats' Orchestrated
Attack on General Petraeus...**

■ Monday, September 10, 2007

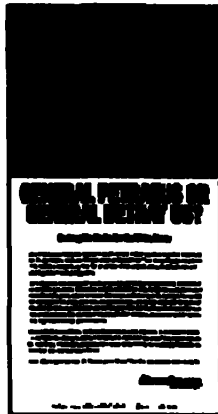
MoveOn.org calls General David Petraeus
"General Betray Us" in a *New York Times*
full page ad.

■ Tuesday, September 11, 2007

Hillary Clinton continued the character
attack on General Petraeus and refused
to denounce MoveOn.org's ad.

**"Using Master language that any other Democrat
in the last two days, Mrs. Clinton told General
Petraeus that his progress report on Iraq required
[the] willing suspension of disbelief."**

- New York Sun, 9/12/07



THE PETRAEUS RECORD...

★ Four-Star General,
United States Army

★ Recognized in 2005 by *U.S.
News and World Report* as one
of America's 25 Best Leaders

★ The Defense Distinguished
Service Medal

★ Two awards of the Defense
Superior Service Medal

★ Four awards of the
Legion of Merit

★ The Bronze Star Medal
for Valor

Who should America listen to...

A decorated soldier's commitment to defending America,
or Hillary Clinton's commitment to defending MoveOn.org?

**"These times call for statesmanship,
not politicians spewing political venom."**

- Mayor Rudy Giuliani

JohnFund2008.com

Available to the public through the National Archives and Records Administration

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